HOUSING MARKET OUTLOOK
Québec CMA

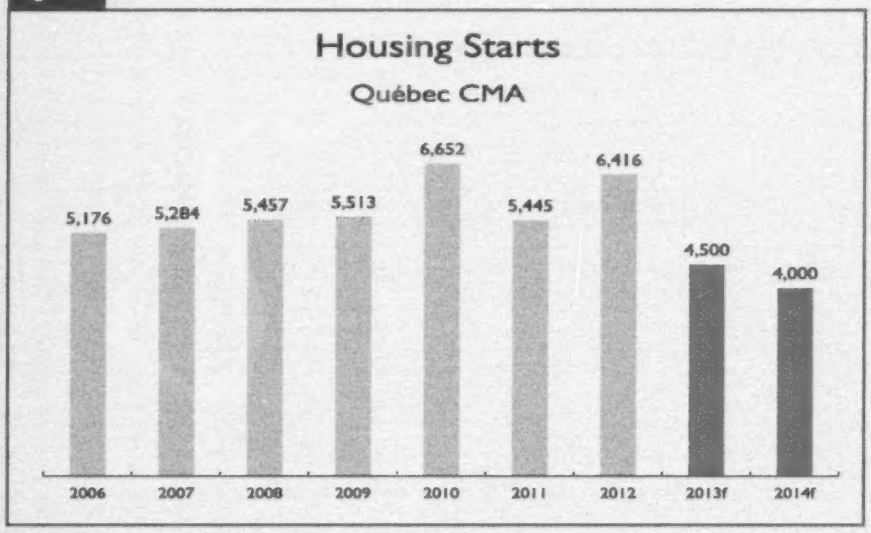
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2013

Highlights

- Employment growth will be moderate, and this will limit the movement to homeownership.
- Population will be boosted by continued high migration, which will fuel demand for rental housing in the CMA.
- Market conditions will soften, and this will ease the pressure on prices.
- Housing starts will decrease, particularly in the case of condominiums.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 16, 2013.

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New home market: there will be an adjustment period

Several factors will work toward a decline in construction this year and next: the slowdown in employment growth, the broad choice of residential properties for sale and the gradual rise in mortgage interest rates.

In the case of multi-unit housing, another factor that should be mentioned is the large inventory of new condominiums. In fact, condominium starts reached a peak last year, which led to supply outpacing demand. There are consequently many units under construction and a relatively large inventory of unabsorbed new units.

This year and next, developers will adjust their production, and condominium starts will decrease significantly. In 2013, the drop will be close to 40 per cent, as construction will get under way on a total of 1,600 condominiums. Next year, the decline will be smaller (-13 per cent), for a total of 1,400 starts. These market adjustments will allow for the absorption of the units that are currently available.

Rental housing starts will also post a slowdown compared to 2012, mainly on account of the decrease in activity anticipated in the retirement home segment. This market effectively experienced a significant boom in recent years, and the vacancy rate for standard spaces increased, rising from 5.2 per cent to 6.3 per cent between 2012 and 2013.

In 2014, the slowdown in rental housing construction will affect the conventional apartment segment. The percentage of vacant units will be on the rise this year, which will cause the growth in supply to slow down in 2014.

This year, 1,250 units will be added to the rental housing stock, for a decrease of 25 per cent from last year. Next year, 1,000 starts should be enumerated, or 20 per cent fewer than in 2013.

Semi-detached and row home construction will decline to some extent, given the more abundant supply on the existing home market and the municipal directions toward greater density.

Starts of single-detached houses will continue on the downward trend that began several years ago. Such dwellings are facing the same issues as semi-detached and row homes, as well as other factors that are limiting their development, including prices and the availability of lots for houses of this type. Single-detached home starts will reach 1,000 units this year and 900 next year.

The new home market will therefore be adjusting over the forecast horizon, and total housing starts will fall by 30 per cent in 2013 and by 11 per cent next year.

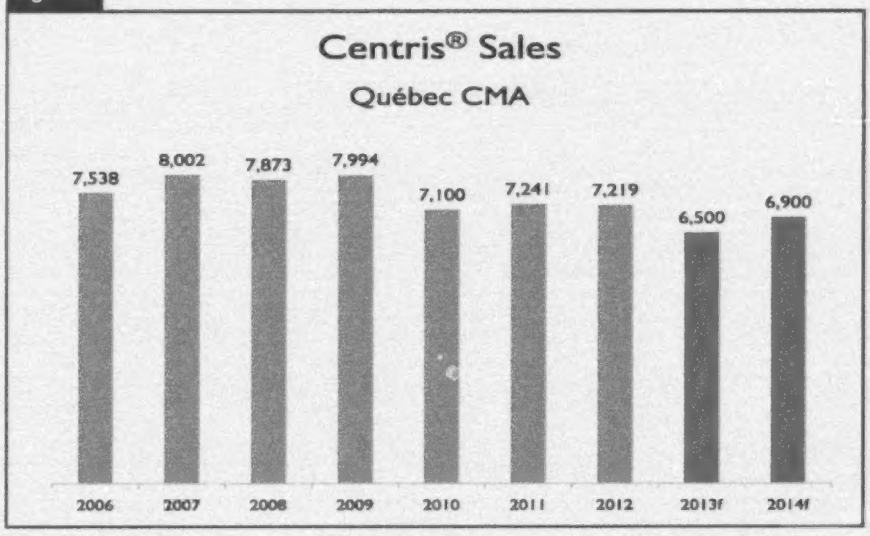
Existing home market: activity will resume a brisker pace following a slowdown

The slowdown observed on the labour market limited the number of buyers on the resale market. There was also the recent tightening of the mortgage financing rules.

As a result, activity on this market began declining in July 2012, continued on a downward trend until the spring of 2013, and then finally stabilized.

However, transactions should pick up the pace by the end of this year, for an annual total of 6,500 Centris® sales, down by 10 per cent from 2012.

Figure 2



Source: QFREB by the Centris® system f: CMHC forecasts

The brisker pace, beginning at the end of 2013, will continue next year, thanks to renewed employment growth, dynamic demographics, a broader choice of properties for sale and still attractive financing conditions. However, the gradual increase in interest rates during the second half of 2014 will limit the rise in sales over that period.

For next year, Centris® sales are expected to increase by 6 per cent over 2013, for a total of 6,900 transactions. But this level will still be below the average for the last ten years.

The recent trend on the resale market had several repercussions: rising inventory of properties for sale, softer market conditions, longer listing periods and slower growth in prices.

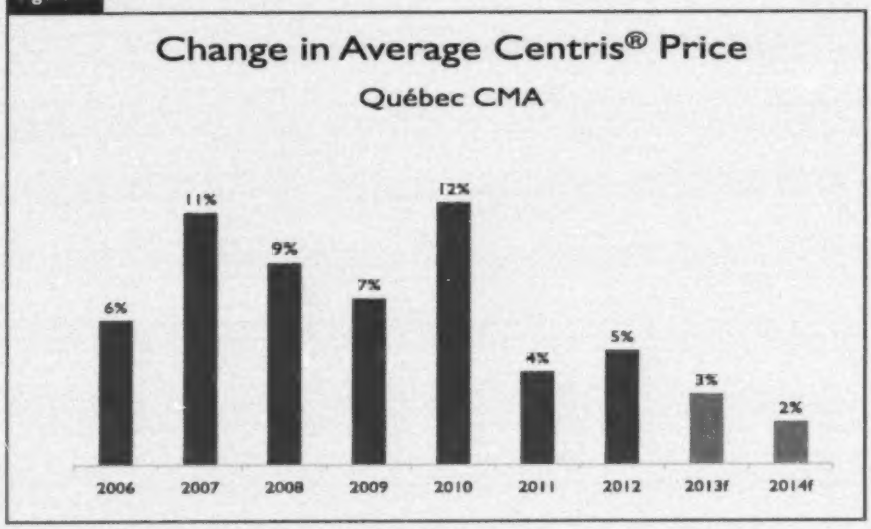
It should be noted, however, that the condominium market was harder hit than the single-family home market. In fact, from January to September of this year, active Centris® listings rose by just 8 per cent year over year for single-family houses but by 45 per cent in the case of condominiums.

It should further be mentioned that the high level of condominium construction in recent years also contributed to this market trend.

With a Centris® active listings-to-sales ratio of 16 to 1[1], the condominium market is now clearly favourable to buyers, who therefore have the edge over sellers when negotiating the conditions for buying a condominium.

On the single-family home market, conditions are at the lower limit of a balanced market, with an active listings-to-sales ratio of 8 to 1.

Figure 3



Source: QFREB by the Centris® system f: CMHC forecasts

Next year, market conditions are expected to tighten slightly. The active listings-to-sales ratio should edge down, as a result of an increase in the pace of transactions and an anticipated decrease in condominium starts.

Market conditions will still remain softer than before, though, which will ease the pressure on prices. The average Centris® price of residential properties will rise by 3 per cent in 2013 and then by 2 per cent, to $271,000, in 2014.

Rental market: conditions will ease and then stabilize

Between 2011 and 2012, demand for rental housing remained relatively stable, given the rather moderate employment growth, the little change observed in the movement to homeownership and the small increase in net migration. It is more the supply side that has to be examined to understand the factors that caused the market to ease.

In fact, 3,200 conventional rental units were started from 2010 to 2012, for a hike of 39 per cent compared to the previous three-year period. That was the main reason why the vacancy rate rose from 1.6 per cent in 2011 to 2.0 per cent in 2012.

Another reason is the ever-growing number of rental condominiums. In fact, this secondary market provides competition for a portion of the rental market (upscale segment). Between 2011 and 2012, rental condominiums increased by 56 per cent, rising from 1,470 to 2,297 units.

This year, stable employment and net migration will keep demand at a level similar to that recorded in 2012. As well, starts of conventional rental units are expected to remain relatively stable. This addition of units and the expansion of the secondary rental market will cause conditions to ease

[1] The relationship between buyers and sellers is generally considered to be balanced when the Centris® active listings-to-sales ratio is between 8 and 10 to 1. When this ratio is above 10 to 1, the power relationship between buyers and sellers changes and the edge goes to buyers.

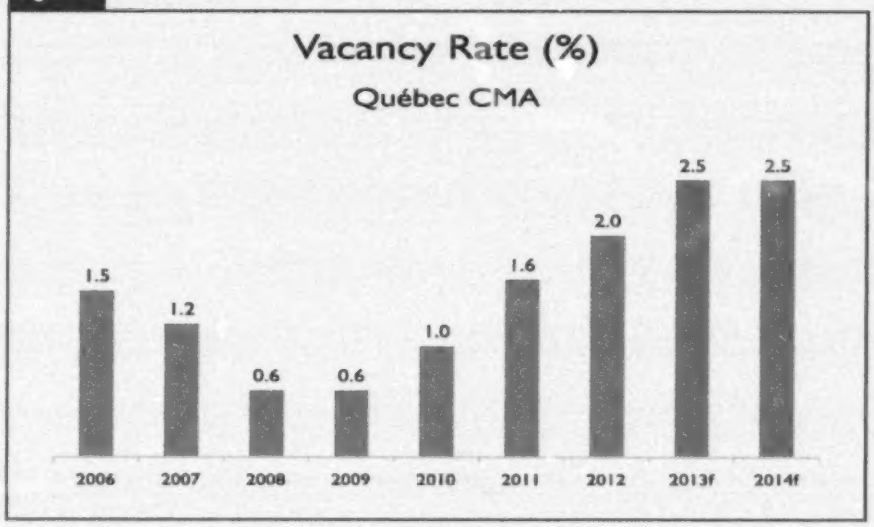
further, and the vacancy rate will rise from 2.0 per cent to 2.5 per cent.

Next year, the positive employment and migration trends will bring about a moderate increase in rental housing demand.

On the supply side, the pace of starts will slow down, which will allow the market to adjust to the changes in demand. We consequently forecast stable conditions on the market next year, with a vacancy rate that should remain at 2.5 per cent.

Given the softer conditions, the average rent for two-bedroom apartments will rise moderately, by 2.0 per cent, and reach $755 in 2013 and $770 in 2014.

Figure 4



Source: CMHC f: CMHC forecasts

Economic trends: employment will stabilize and then pick up again slightly

After posting a period of sustained growth, employment in the Québec census metropolitan area (CMA) is showing signs of slowing down.

Already in 2012, the growth was rather moderate, with jobs up by just 0.5 per cent. The rate of growth was well below the average of 2.2 per cent recorded from 2007 to 2011. During that period, the many public and private investments were major vectors of growth in the CMA.

The current strength of several industries in the area is in fact attributable to significant infrastructure development and repair as well as the completion of several institutional and private construction projects. This year, public and private investments will stay at high levels, which will support employment in several sectors.

Still, the area will be affected by the slowness of the recovery at the provincial level, which will contribute to limiting the potential for employment growth. As well, the expected slowdown in residential construction will also curb the expansion of the labour market.

All in all, employment will remain stable this year, but the decrease in the labour force will result in a small drop in the unemployment rate, which should reach 4.8 per cent, compared to 5.1 per cent last year.

In 2014, when certain large projects will be coming to an end, others will be started, ensuring that the labour market will remain solid. The economic growth anticipated in the province and across North America will be more sustained than in 2013, somewhat boosting the manufacturing sector, which suffered from the recent economic slowdown.

Several service sector industries will also benefit from this better climate, including accommodation and food services as well as transportation and warehousing.

Overall, the labour market will post moderate growth of about 1 per cent in 2014, and the unemployment rate will be relatively stable, at 4.8 per cent.

This small employment gain will limit the movement to homeownership. As a result, housing demand will continue to be supported by a solid job market but will be less strong than in recent years.

Population: Québec area will remain appealing

The good employment performance has greatly contributed to the appeal of the CMA in recent years. In fact, net migration has progressively increased, which has supported population growth.

Another result from this period of economic expansion is that the area has been attracting more and more immigrants. This migration trend has helped offset the decreases recorded in net interregional migration. All in all, the area gained just over 5,000 new residents in 2012.

This year and next, total net migration is expected to rise slightly, as a result of the less attractive prospects in the mining sector. There should in fact be more newcomers from other regions.

As well, net international and provincial migration levels should be maintained on account of the solid employment environment.

Overall, the area will see net migration levels remain stable in 2013 and then increase in 2014, thanks to renewed employment growth.

The favourable demographic trend will help fuel housing demand in the CMA. In the short term, this will boost demand on the rental market, an option that is often a quick and practical way to secure housing.

In the medium and long term, this will stimulate the new and existing home markets, as some of these new residents will access homeownership.

Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards

Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates.[2]

CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.

Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

[2] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting," Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

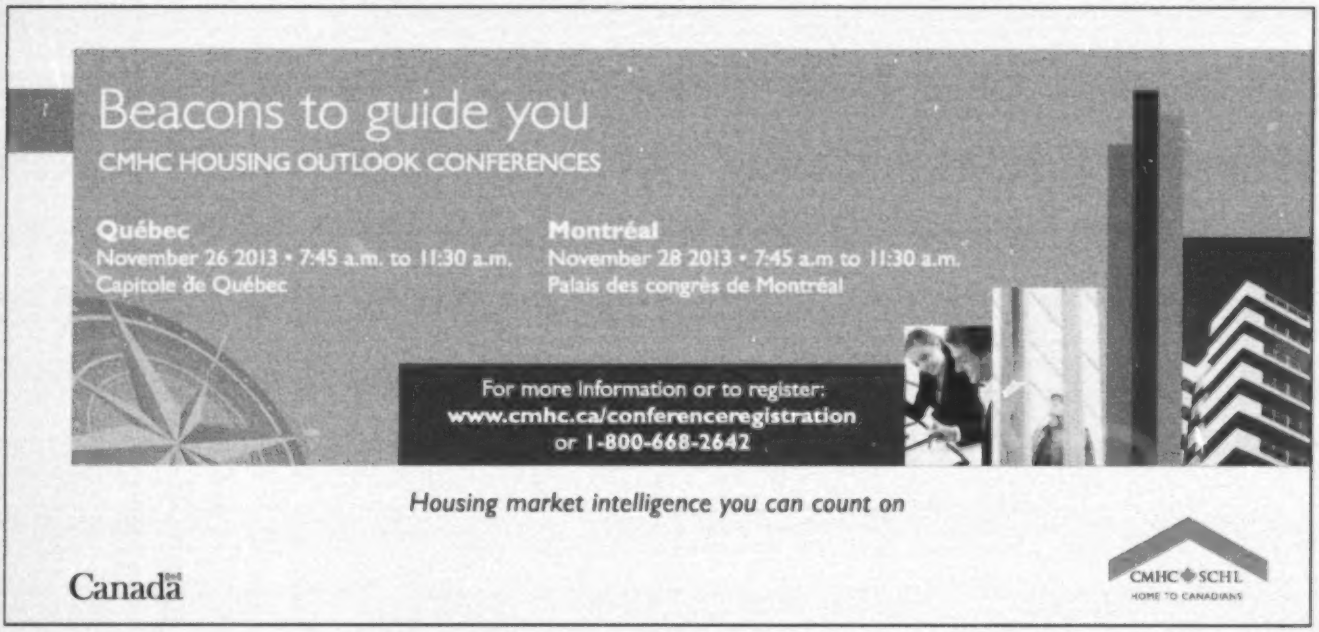
Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	Moderate employment growth will limit the movement to homeownership. As a result, housing demand will continue to be supported by a solid job market but will be less strong than in recent years.
Income	Average weekly earnings increased at a higher rate than inflation in the Québec CMA. The net result is therefore positive real wage growth, which will support homeownership.
Population	Net migration in the area has grown in recent years and is expected to remain significant. The favourable demographic trend will help fuel housing demand in the CMA. In the short term, this will boost demand on the rental market, an option that is often a quick and practical way to secure housing.
Resale Market	The broad choice of properties for sale will favour the existing home market to the detriment of the new home market.
Supply	The supply of new condominiums is abundant on account of the significant number of starts recorded in recent years. This year and next, the market will adjust, and starts will fall markedly.

Forecast risks

This outlook is subject to some risks, including the following:

- Employment growth could be more moderate than expected on account of a possible slowdown in investments in the CMA and slower-than-expected economic growth in the province. Should such a situation occur, this would further limit housing demand over the next two years. The existing, new and rental housing markets would therefore be affected.
- Likewise, if employment were to show signs of slowing down, migration could be less strong than anticipated, which would weaken demand in the rental segment and cause this market to ease further.
- However, employment growth could also be greater than expected, especially if certain major capital projects are carried out in the first half of 2014. If employment is further boosted, this will support a stronger-than-expected housing demand.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Forecast Summary Québec CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,768	1,349	1,258	1,000	-20.5	900	-10.0
Multiples	4,884	4,096	5,158	3,500	-32.1	3,100	-11.4
Starts - Total	6,652	5,445	6,416	4,500	-29.9	4,000	-11.1
Average Price ($):							
Single-Detached	292,370	313,905	326,583	343,000	5.0	355,000	3.5
Median Price ($):							
Single-Detached	260,000	283,579	292,174	300,000	2.7	305,000	1.7
New Housing Price Index (% chg.)	3.2	1.4	2.9	1.6	-	1.5	-
Resale Market[1]							
Centris® Sales	7,100	7,241	7,219	6,500	-10.0	6,900	6.2
Centris® New Listings	11,169	12,423	12,687	12,800	0.9	13,000	0.0
Centris® Active Listings	3,130	4,082	4,693	5,400	15.1	5,500	1.9
Centris® Average Price ($)	235,722	245,470	257,942	266,000	3.1	271,000	1.9
Rental Market[2]							
October Vacancy Rate (%)	1.0	1.6	2.0	2.5	-	2.5	-
Two-bedroom Average Rent (October) ($)	692	718	741	755	-	770	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	410,200	419,700	422,000	422,000	0.0	426,195	1.0
Employment Growth (%)	3.8	2.3	0.5	0.0	-	1.0	-
Unemployment rate (%)	4.9	5.3	5.1	4.8	-	4.8	-
Net Migration	4,742	5,075	5,275	5,275	0.0	5,400	2.4

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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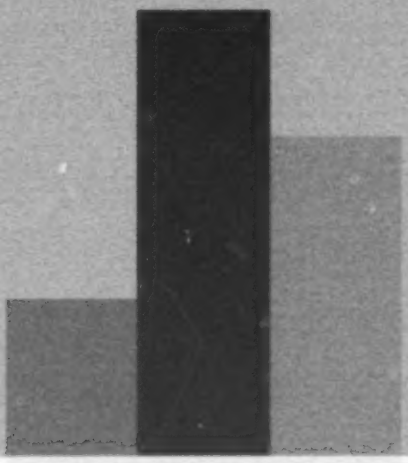

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